

**PENSION REFORM COMMITTEE  
MEETING OF  
Tuesday, November 25, 2003  
4:00 PM – 6:00 PM Meeting**

**401 B Street  
Conference Room, 4<sup>th</sup> Floor**

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**MINUTES**

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**THE REGULAR MEETINGS OF THE PENSION REFORM COMMITTEE ARE  
SCHEDULED FOR EVERY TUESDAY AT 4:00 PM AT 401 B STREET, 4<sup>TH</sup> FLOOR**

**Item 1:        Call to Order**

The meeting was called to order at 4:00 PM.

**Item 2:        Roll Call**

<u>Members Present</u>	<u>Members Absent</u>	<u>Staff Present</u>
April Boling	Kathleen Walsh-Rotto	Patricia Frazier
Steve Austin		Chris Morris
Robert Butterfield		Mary Braunwarth
Tim Considine		Paul Barnett, SDCERS Staff
Stanley Elmore		Dennis Gibson
Judith Italiano		Pam Holmberg
William Sheffler		
Richard Vortmann		

**Item 3:        Approval of Minutes**

Mr. Elmore made a motion for approval of the minutes of the November 18, 2003 Pension Reform Committee (Committee) meeting. The motion was seconded by Mr. Considine. The motion passed unanimously.

**Item 4:        Non-Agenda Public Comment**

Patricia Karnes, a retired City employee, expressed her concerns with the Social Security System and City employees. The City withdrew from the Social Security System in 1982. Unless employees have enough quarters to their credit from other employment they won't qualify for Social Security. The City established the Supplemental Pension Savings Plan (SPSP) in 1982 to compensate, but the amount you can contribute was capped. She is concerned that if the City were to go bankrupt Retirees could not survive on SPSP alone and would not be eligible for Social Security.

Jim Gleason, a City Retiree, commented on the public input process and the length of time allotted by the Committee for comments. He believes the Retirement process is so complicated it makes it difficult to provide input in three minutes. He would like more time allocated, and it should be more than 15 minutes. He said the Committee has heard a view of the System from one side and needs to hear from retirees to get a balanced view.

Nancy Acevedo, the current president of City of San Diego Retired Employee Association, offered the Association's assistance to the Committee and stated her appreciation that Stan Elmore is the Association's representative. She said their members have been told that their vested benefits are secure, but they haven't received supplemental benefits for the past two years although they had been paid each of the previous 20 years. The members are also holding IOUs for the last two years of Corbett benefits. She believes that something is amiss when Retirees earning \$500 or less a month are holding IOUs on a \$3 billion system.

Virginia Silverman, a retired City employee, said she hopes the Committee will recommend changes to the City Charter. Specifically, she would like the composition of the Retirement Board changed so that City employees and labor associations are not in the majority because of conflicts with their fiduciary responsibilities. She would also like to see the Charter changed so retired City employees can vote on benefit changes. She also expressed concerns about the payment of contingent benefits. She feels that programs such as DROP, which are on the top of the list when surplus earnings are distributed, are depriving the System of the necessary funds to pay contingent benefits. Finally, she agreed that the Committee should allow more time for public input.

Ms. Boling said that the Committee welcomes input in writing if time allotted for non-agenda public comment is too restrictive.

#### **Item 5: Work Plan for the Pension Reform Committee**

Ms. Boling said that thus far the Committee had devoted its meetings to educational sessions about the City's Retirement System. Although educational sessions will continue, the Committee needs to start thinking about the structure of their January 22 report to Mayor and Council. They also need to decide what information is still needed and if they need a budget for consultant services to prepare the final report. She believes the members of the City Council have varying expectations on the outcome of the Committee's work because they are hearing a wide variety of opinions about the state of the Retirement System and what changes are needed. She said she hopes the Committee can give them an independent analysis on the state of the System and make recommendations it believes will help strengthen it.

Ms. Boling reported that SDCERS has commissioned an auditor to perform three audits on the System (actuarial, investments, and best practices.) If the Committee is comfortable with the scope of the audits, the results should be useful for the final report. She asked Mr. Vortmann for an update on the audits. Mr. Vortmann said that Mercer had been selected to perform all three audits. The Retirement Board's Audit Committee still needs to finalize the scope of work and negotiate pricing with Mercer. The Audit Committee will discuss the audits and the contract with Mercer at their December 18 meeting. If the audits can be done concurrently, they should be completed in about four months. Ms. Boling encouraged all the Committee members to

attend the December 18 meeting if they have input on the scope of the audits. Mr. Vortmann suggested the Committee review the information that was distributed on the scope of the audits before the December 18 meeting and recommend any changes to the Audit Committee in writing.

Ms. Boling suggested the Committee create an outline of their final report so they can understand what information will be provided by the Retirement System's audits; what information could be provided if the scope of the audits were changed; and if they need to commission any studies of their own. Mr. Vortmann distributed a draft outline of a final report he created for the Committee's consideration. The report would give an overview of: 1) The current condition of the Retirement System and the retiree health plan 2) The cause of the System's current condition 3) A list of alternative courses of action to remedy the current problem. The Committee discussed the outline and provided recommendations on items to be added, changed or deleted. Staff provided information on certain aspects of the discussion. Chris Morris of the City Attorney's Office informed the Committee that any recommended changes to the City Charter, such as a change in the composition of the Retirement Board, would require a ballot measure. Other changes would amend the Municipal Code, requiring City Council approval. Pat Frazier advised that questions about compensation for City employees will be addressed on December 9 when Deputy City Manager Bruce Herring provides an overview of the City's collective bargaining history and process. Ms. Boling said she would revise the outline provided by Mr. Vortmann based on the Committee's discussions and bring the revised outline to the December 2 meeting for further discussion.

Mr. Austin said he would review the scope of the audits to be conducted for SDCERS and offer suggestions at the next meeting. It was agreed that the Committee would discuss both the revised work plan and the scope of the audits at the next meeting on December 2.

**Item 6:           Comments by Committee Chairperson**

There were none.

**Item 7:           Comments by Committee Members**

There were none.

**Item 8:           Adjournment**

The meeting was adjourned at 5:45. The Committee went into a noticed closed session for a briefing from legal counsel on the existing litigation against the City and the SDCERS System. Prior to adjourning, Ms. Boling advised that the purpose of the closed session briefing was to educate the Committee on the nature and time-line of the litigation so it can understand how the litigation may impact the Committee's work plan and time-line for reporting their findings to City Council. It was not the Committee's intent to discuss legal strategy.

**The next meeting will be on Tuesday, December 2, 2003 at 4:00 PM at the same location.**

**PRC: Outline of Final Report**

I. Overview

- A. What is the current condition of the pension trust and the retiree health plan?
- B. What is the cause of this current condition?
- C. What alternative courses of action are available to remedy the current problem?

II. Basic Issues

- A. The City has been granting pension benefits clearly in excess of its ability/willingness to pay for currently and thereby pushing an ever increasing burden onto future years' taxpayers. Obviously this is an unsustainable process.
  - 1. Model out necessary City pension payment to CERS by year and show the required percent of City Budget they will represent.
  - 2. Develop alternatives if the above drain on City Budget is perceived unachievable.
    - a. Fund current shortfall with pension bonds
      - 1. Model this out for annual impact on City Budget
      - 2. Tax exempt or not?
    - b. Reduce benefits
    - c. Replace current define benefit plan with define contribution plan
  - 3. Mandate immediate full funding on any new benefit increases with a specified, say 10 years, maximum on funding of any past service obligation resulting from the new benefit.

- B. Determine "appropriateness" of current level of pension benefits being offered
1. Benchmark current level of pension benefits, employee contributions, etc against other government agencies and against private industry norms, adjusting for employee contributions to and benefits from social security.
- C. The City has extended retiree health benefits to all employees . The City is not funding this liability on an actuarial basis. The City is not even paying current cash costs of current retiree population's health insurance - rather these costs are being paid out of CER's "excess earnings". As a result, if these benefits are to be paid in the future to all current employees, there will be a huge burden on future taxpayers for today's employment costs.
1. Model out on an actuarial basis, the necessary annual funding payments for this liability and show what percent of the City budget this represents.
  2. Determine the legal position of whether these retiree health benefits are vested or alternatively could be eliminated retroactively.
  3. Even if the benefit could legally be eliminated, is this an acceptable "human relations" move?
- Note: I recognize that Mayor Murphy, in our kick off meeting, suggested we focus on pension and not retire medical issues. However, I strongly disagree; we need to address both as I believe retiree medical is far less understood by the City than the pension issue and is in fact, if unchanged, a larger dollar problem than the pension problem.
- D. To clear the current uncertainty and conflicting allegations, analyze and conclude on the causes of the current under funded status of CERS, starting say in 1990.
1. Shortfall of City contributions versus true actuarial requirements (PUC or EAN?)
  2. Granting of new benefits without corresponding full funding, and the past service obligation created even if full funding of new normal costs.
  3. Legal settlements without commensurate City funding of CERS

4. Investment performance versus actuarial earnings assumption.
5. Other actuarial assumptions, includes particularly the actual rate of City salary increases versus what was actuarially assumed (and what was "publicly stated" as the City's annual increase).
6. Dissipation of plan assets for "contingent benefits"
7. Distribution of plan assets for disability pensions relative to assumption for such in actuarial formulas.

### III. Component detail issues

- A. Eliminate the fictional concept of "excess pension earnings" available for "extra benefits"
  1. Alternatively, actuarially calculate the cost of the "extra" or contingent benefits (properly factoring in the probability of the "contingency") as part of the plan liabilities which then must be funded annually.
- B. Determine whether/which "contingent" benefits should be deemed vested benefits.
- C. Eliminate the "bells and whistles" which have been added to the basic vanilla defined benefit pension plan (e.g. drop and purchased service credits).
  1. There are administrative burdens which require untenable "investment" decisions as to how to price, what investment return to assign, etc.
- D. Review and pass judgement on the key actuarial assumptions being used by CER's, particularly the earnings assumption of 8% in light of today's economy.
  1. These assumptions drive all the calculations in II. Above
  2. Obviously assumptions which are too aggressive / optimist will perpetuate the practice of the past decade of deferring current employment costs out to future year's to taxpayers.

- E. Change the disability definition from "unable to perform current position" to "totally disabled", i.e. unable to perform any work at all (including lower compensation positions).

- 1. Will eliminate a serious drain on CER assets and preclude people retiring on disability from the City and subsequently taking jobs elsewhere.

#### IV. Governance Issues

- A. Change the City Charter to require a completely "independent" board with all members of the CER Board to be appointed by the City Council (with staggered terms to spread appointments over several different administrations). No appointee shall be an employee of the City, a representative of any Union that negotiates with the City; or a beneficiary of CER's.

- V. Subject areas of lesser importance but which possibly needs to be addressed for completeness for public consumption.

- A. CER's investment performance, investment strategy, etc.

- 1. I believe there is ample statistics readily available to address this; further an independent audit on this issue is underway at CERS.

- B. Efficiency and efficacy of CER's operations

- 1. Hopefully the "Best Practices" audit underway at CER's will adequately address this.